

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF THE UNION LIGHT, HEAT AND)
POWER COMPANY TO ADJUST ELECTRIC RATES) CASE NO. 91-370

O R D E R

IT IS ORDERED that the Attorney General, by and through his Utility Rate and Intervention Division ("AG"), shall file the original and 12 copies of the following information with the Commission by March 4, 1992 with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

The following questions pertain to the testimony of Thomas C. DeWard:

1. Concerning pages 9 and 10 of Mr. DeWard's testimony and Exhibit TCD-1, Schedule 4, explain how the ratepayers are required to pay a return on these "cost-free liabilities" without your adjustment.

2. With regard to your adjustment on Schedule 4, identify the component(s) of rate base and capitalization that contain the \$1,489,535 you are proposing to exclude in excess of the deferred tax amounts which ULH&P has proposed to exclude from rate base. List each account, rate base component, and capital component and explain the accounting process which provided these amounts in the applicable component.

3. With regard to your adjustment on Schedule 4, explain why you are unable to determine whether the deferred taxes on the books of ULH&P represent only Federal tax amounts or Federal and State tax amounts.

4. Identify the balance sheet account(s) which contain the accrued liability associated with uncollectible accounts, post-retirement benefits, and accrued vacation pay.

5. With regard to your adjustment on Schedule 4, identify any utility regulatory agencies that have accepted this proposed adjustment including the gross up to determine the "cost-free liability" and provide copies of orders which contain these adjustments.

6. Concerning page 10 of Mr. DeWard's testimony and Exhibit TCD-1, Schedule 5, provide an explanation of why Mr. DeWard believes it is appropriate to adjust the prepayments portion of ULH&P's rate base, other than for the fact that a similar adjustment was made by the Commission in ULH&P's last general rate case.

7. Page 18 of Mr. DeWard's testimony discusses the power contract between ULH&P and the Cincinnati Gas and Electric

Company. Provide an explanation concerning Mr. DeWard's understanding as to under whose jurisdiction the review and approval of this contract falls, this Commission or the Federal Energy Regulatory Commission ("FERC"). Include the basis for Mr. DeWard's understanding.

8. Concerning page 22 and 23 of Mr. DeWard's testimony and Exhibit TCD-1, Schedule 12, provide a detailed explanation as to why it is appropriate to remove the test year expenses of the Deferred Compensation and Investment Plan but not remove the test year expenses of the Savings Investment Plan.

9. Concerning page 31 and Exhibit TCD-1, Schedule 24, provide the following information:

a. Schedule C-3, page 3 of 4 in ULH&P's application, shows adjustments to Federal and State income taxes related to the proposed adjustment to AFUDC. Explain in detail why Mr. DeWard believes that his proposed adjustments to income tax deferral accounts and writebacks are necessary in addition to ULH&P's proposed income tax adjustments related to AFUDC.

b. Explain in detail why Mr. DeWard believes it is necessary to remove the entire test year balance in deferred income taxes and writebacks related to AFUDC.

The following questions pertain to the testimony of David H. Kinloch:

10. Concerning page 6 of Mr. Kinloch's testimony, provide an explanation for his position that the purchased power contract can be examined as to its prudence by this Commission. Include an

indication of Mr. Kinloch's understanding as to whether the power contract is within the jurisdiction of this Commission or FERC.

11. Concerning pages 8 and 9 of Mr. Kinloch's testimony, provide the following information:

a. Copies of Mr. Kinloch's analysis of available purchase power in the region at the time the new purchase power contract was signed by ULH&P and Cincinnati Gas and Electric Company ("CG&E").

b. Copies of Mr. Kinloch's analysis of wheeling rates charged by CG&E, the American Electric Power Company, and other utilities in the region.

c. Copies of Mr. Kinloch's analysis of the costs to ULH&P to construct its own ties to other utilities.

12. Concerning page 63 of Mr. Kinloch's testimony, provide the following information concerning the Edison Electric Institute ("EEI"):

a. Identify the date of the "recent NARUC audit of EEI" cited by Mr. Kinloch.

b. Identify the references which document the EEI actions with the Department of Energy cited in Mr. Kinloch's testimony. Include copies of the referenced material.

c. Exhibit DHK-18 was published in late 1985. Indicate whether any more recent information concerning EEI's "reason for existing" is available. Include copies of any such material.

13. Concerning Exhibit DHK-18, provide copies of the most recent information Mr. Kinloch is aware of which indicates the rate-making treatments used in other states for EEI dues.

14. Mr. Kinloch's testimony, page 21, line 21, states, "In the IRP, CG&E calculates the value of interruptible loads based on avoiding or deferring new capacity." Mr. Kinloch also includes page 26 from CG&E's Short Term Implementation Plan as Exhibit DHK-5.

a. From where on Exhibit DHK-5, or elsewhere in the Short Term Implementation Plan, did Mr. Kinloch determine that CG&E's proposed credit of \$4.38 per KW is based on avoided costs?

b. Has Mr. Kinloch made a determination of whether the current interruptible credit of \$4.45 per KW in the Newport Steel contract is based on avoided costs?

15. On page 30 of his testimony, at lines 3 through 6, witness Kinloch, referring to CG&E's need to pay interruptible customers for the capacity they supply to the CG&E system, states "This can be done either directly through sending a check each month, or possibly by crediting the power bill to ULH&P each month, and then having ULH&P pass the credit along through the interruptible customer's monthly bill."

a. Having identified two alternative methods through which CG&E would pay for this capacity, explain Mr. Kinloch's preference (stated elsewhere in his testimony) for direct payments from CG&E to the customer.

b. Identify and explain any concerns Mr. Kinloch has about the credit being passed along from CG&E to ULH&P to the customer.

16. On pages 42 through 52 of his testimony, Mr. Kinloch discusses his recommendation that ULH&P's residential rate design be modified to consist of inclining block energy charges in both the summer and winter billing periods.

a. Is Mr. Kinloch familiar with the rate-making standards adopted by the Commission after its review of the PURPA standards in Administrative Case No. 203?

b. Has Mr. Kinloch made a determination that his proposal is not violative of the standards of gradualism, rate continuity, and revenue stability adopted in Administrative Case No. 203 and applied in subsequent rate Orders?

c. Provide the results of any analysis or study Mr. Kinloch has performed in order to make a determination like that described above in part (b) of this request.

17. Explain the similarities between the Base - Intermediate - Peak allocation method and the Average and Excess allocation method as discussed on page 36 of Mr. Kinloch's testimony.

18. Referring to Exhibit DHK-6, Schedule 13, page 19 of 19:

a. Explain how system maximum load and load factor were determined.

b. Explain why system load factor is used as the "average contribution to cost."

19. Fully explain the following statement from page 37 of Mr. Kinloch's testimony: "They [ULH&P] lumped the primary and

secondary distribution plant together, but designed allocator 414 as if they were only dealing with the secondary plant." Provide examples and illustrations.

20. Explain why ULH&P's 80% Demand-20% Customer allocator is used to develop Mr. Kinloch's allocator A414 as discussed on page 37 of his testimony and shown on Exhibit DHK-6, Schedule 13, page 19 of 19.

The following questions pertain to the testimony of Carl G. K. Weaver:

21. Concerning Dr. Weaver's Exhibit, Statement 19, provide a detailed explanation to why Dr. Weaver used the average daily bank note balance as the amount of bank loans included in the capital structure instead of the balance of bank loans outstanding at test year end.

22. Concerning Dr. Weaver's Exhibit, Statement 20, deferred investment tax credits ("ITCs") are shown as \$6,362,313. This amount reflects the balance for Account No. 255, for gas and electric deferred ITCs as of test year end. In determining its electric rate base, ULH&P included a portion of the electric deferred ITCs. The amount included in rate base was part of the \$6,362,313. Provide the following information:

a. Indicate whether Dr. Weaver was aware that some of the electric deferred ITCs were included in both ULH&P's rate base and capitalization.

b. Explain whether Dr. Weaver agrees that the same ITCs can be used in both the determination of rate base and capitalization.

23. Concerning Dr. Weaver's Exhibit, Statement 21, provide a detailed explanation as to why Dr. Weaver showed the deferred ITCs as a separate component of capitalization and why Dr. Weaver assigned a cost rate to the deferred ITCs.

Done at Frankfort, Kentucky, this 21st day of February, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director